



SF 482 – Water Quality (LSB1844SV)

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Fiscal Note Version – New

Description

[Senate File 482](#) exempts the sale of water by utilities from the State sales tax and creates a Water Service Excise Tax on metered water that is deposited in the General Fund. These funds are then transferred incrementally to the Water Quality Financial Assistance Fund. One-sixth of the tax will be transferred from the General Fund in FY 2018. This will increase by one-sixth each year until the full amount of the tax is transferred in FY 2023 and after. The tax is repealed on January 1, 2030.

Water Quality Infrastructure Fund. Appropriates a total of \$229.1 million (for the period FY 2018 through FY 2030) from the Rebuild Iowa Infrastructure Fund (RIIF) to the Water Quality Infrastructure Fund. The Division of Soil Conservation and Water Quality of the Department of Agriculture and Land Stewardship (DALSS) will administer the Fund and can use up to 4.0% of the Fund for administration. The Fund is repealed after all funds have been expended. The Division is required to submit an annual report to the Governor and the General Assembly beginning October 1, 2018, detailing the expenditures of the previous year.

The Fund will support two types of projects as detailed in the [Iowa Nutrient Reduction Strategy](#):

- The Edge of Field Infrastructure Program supports projects that capture or filter nutrients that can enter surface water. These are long-term projects and examples include wetlands, bioreactor systems, saturated buffers, and land use changes.
- The In-Field Infrastructure Program supports projects to decrease erosion and surface water runoff. These are long-term projects and examples include terraces, waterways located on cropland, soil erosion control structures, and managed drainage systems.
- The Division can support multiple projects on one location and can combine projects from both Programs.
- To measure the progress toward meeting Iowa Nutrient Reductions Strategy goals, the baseline is calculated for the time period from 1980 to 1995 as in the federal Environmental Protection Agency (EPA) Gulf Hypoxia Action Plan. Refer to the Mississippi River/Gulf of Mexico Watershed Nutrient Task Force [2015 Report to Congress](#) for additional information.

Water Quality Financial Assistance Fund. Creates the Water Quality Financial Assistance Fund in the State Treasury and appropriates moneys from the Water Service Excise Tax to the Fund. For FY 2018 through FY 2030, funds will be appropriated annually as follows:

- 40.0% to the Iowa Finance Authority (IFA) for the Wastewater and Drinking Water Financial Assistance Program. The IFA will administer the Program that consists of appropriations, interest, and other funds. The Program will be expanded to include “drinking water” and source water protection projects. The IFA can use 1.0% of the funds for administration. The IFA is required to submit an annual report to the Governor and the General Assembly beginning October 1, 2018, detailing the expenditures of the previous year. The Program is

amended to give priority to communities that employ technology to address the latest version of the Nutrient Reduction Strategy and eligibility is expanded to include utility management organizations and rural water systems.

- 45.0% to the IFA for the Water Quality Financing Program that funds projects to improve water quality related to surface water and groundwater. This is a loan program and the IFA will set the loan interest rates and charge fees to pay for the costs of processing loans. The IFA is required to submit an annual report to the Governor and the General Assembly beginning October 1, 2018, detailing the expenditures of the previous year.
- 15.0% to the Division of Soil Conservation and Water Quality of the DALS for the Water Quality Urban Infrastructure Program to fund demonstration projects that decrease erosion and storm water discharge, and other related projects. The projects will be funded on a cost-share basis. The Division can use 4.0% of the funds for administration. Beginning July 1, 2019, funds can be used to support the three-year data collection of in-field practices at Iowa State University. Funds may also be used to develop and maintain a webpage displaying measurable indicators of change in State watersheds. Examples of measurable indicators are public and private funding inputs, land use, and calculated load reductions.

Background

Currently, the sale of water by utilities to residential and nonresidential customers is subject to the State sales tax, as well as any local option sales tax (LOST). Nonresidential sewage utilities are also subject to the sales tax, while residential sewage utilities are not. The State sales tax includes a portion that is directed to the Secure an Advanced Vision for Education (SAVE) Program, commonly referred to as the “sixth-cent.”

The Wastewater Treatment Financial Assistance Program created in Iowa Code section [16.134](#) is for communities, with priority for disadvantaged communities, seeking to install or upgrade wastewater treatment facilities due to regulatory activity by the Department of Natural Resources (DNR). Grant awards are capped at \$500,000. The Fund received appropriations from the RIIF for the period of FY 2006 to FY 2008 for a total of \$11.0 million.

Assumptions

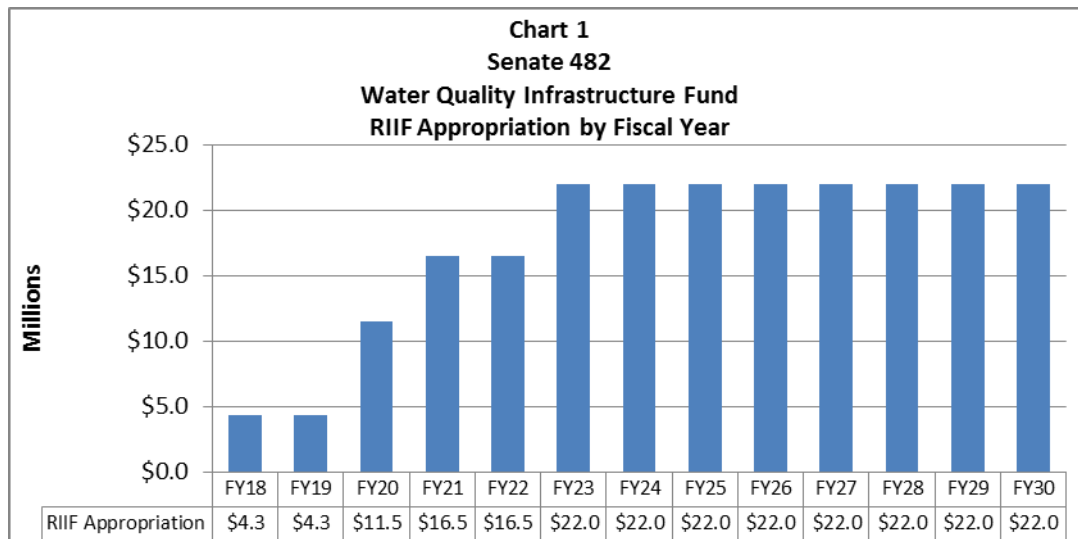
- The annual sales tax attributable to metered water sales in FY 2015 is estimated by the Department of Revenue at \$20.3 million. This number was then increased by Moody’s projections of the Consumer Price Index (CPI) inflation index and population estimates from the REMI¹ forecast.
- Items or services exempt from the State sales tax are also exempt from any LOST. The Bill does not provide for a local option sales tax on water services.
- The Bill does not subject the new water service tax to the SAVE transfer.
- The section of the Bill related to the tax becomes effective July 1, 2017 (FY 2018), and the tax is repealed July 1, 2029.
- The Department of Revenue will have administrative costs related to establishing the collection of the Water Services Excise Tax.
- The DNR will have increased expenditures for support and staff that provide technical assistance to the IFA for projects in the Wastewater and Drinking Water Financial Assistance Program.

Fiscal Impact

Water Quality Infrastructure Fund. The Bill appropriates \$4.3 million from the RIIF to the

¹ REMI refers to Regional Economic Models, Inc. See <http://www.remi.com/> for more information.

Water Quality Infrastructure Fund in FY 2018 and specifies the appropriations for the period of FY 2018 through FY 2030. **Chart 1** details the appropriation per fiscal year.



Water Quality Financial Assistance Fund. The estimated flow of funds under current law and as proposed in SF 482 is shown in **Table 1** below. General Fund revenue and SAVE dollars will be diverted to the Water Quality Financial Assistance Fund and the LOST revenues will no longer be collected.

Table 1 - Current Law vs. Proposed SF 482								
					(in millions)			
Current Law					Senate File 482			
	Estimated Sales of Metered Water	5% Sales Tax to General Fund	Sales Tax to SAVE	Sales Tax to LOST	Excise Tax of 6% to General Fund less Transfer to Assistance Fund	Sales Tax to SAVE	Sales Tax to LOST	Water Quality Financial Assistance Fund
FY 2018	\$ 374.5	\$ 18.7	\$ 3.7	\$ 3.3	\$ 18.7	\$ 0.0	\$ 0.0	\$ 3.7
FY 2019	386.5	19.3	3.9	3.4	13.5	0.0	0.0	7.7
FY 2020	398.1	19.9	4.0	3.5	11.9	0.0	0.0	11.9
FY 2021	408.7	20.4	4.1	3.6	8.2	0.0	0.0	16.4
FY 2022	419.4	21.0	4.2	3.7	4.2	0.0	0.0	21.0
FY 2023	431.1	21.6	4.3	3.8	0.0	0.0	0.0	25.8

The estimated fiscal impact is shown below in **Table 2**.

Table 2 - Estimated Impact of SF 482				
(in millions)				
	General Fund	SAVE	LOST	Water Quality Fin. Assist. Fund
FY 2018	\$ 0.0	\$ -3.7	\$ -3.3	\$ 3.7
FY 2019	-3.9	-3.9	-3.4	7.7
FY 2020	-8.0	-4.0	-3.5	11.9
FY 2021	-12.3	-4.1	-3.6	16.4
FY 2022	-16.8	-4.2	-3.7	20.9
FY 2023	-21.6	-4.3	-3.8	25.8

Once the full amount of the transfer is reached in FY 2023, revenues will grow approximately 2.9% per year until the Program is repealed on January 1, 2030, or when the State sales tax is increased.

From the Water Quality Financial Assistance Fund, funds will be appropriated as shown below in **Table 3**.

Table 3 - Appropriations from Water Quality Financial Assistance Fund			
	Wastewater and Drinking Water Treatment Financial Assistance Program	Water Quality Financing Program Fund	Water Quality Urban Infrastructure Fund
FY 2018	\$ 1,480,000	\$ 1,665,000	\$ 555,000
FY 2019	3,080,000	3,465,000	1,155,000
FY 2020	4,760,000	5,355,000	1,785,000
FY 2021	6,560,000	7,380,000	2,480,000
FY 2022	8,400,000	9,450,000	3,150,000
FY 2023	10,320,000	11,610,000	3,870,000

Other Expenditures. The Department of Revenue estimates expenditures for implementing the Water Services Excise Tax at \$1.1 million for FY 2018. This includes the following:

- \$800,000 for services from the Office of the Chief Information Officer.
- \$200,000 for services from First Data Government Services.
- \$58,000 for indirect expenditures in the Department of Revenue.

The DNR estimates there will be increased expenditures for support and staff that provide technical assistance to the IFA for projects in the Wastewater and Drinking Water Financial Assistance Program. These expenditures are listed below in **Table 4**. No funding source has been identified for these expenditures.

Table 4 - Other Expenditures for SF 482

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Annual Expense FY 2023 - FY 2029
Dept. of Rev. Expenditures	\$1,100,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
DNR Expenditures	170,000	232,000	295,000	403,000	478,000	551,000
Total Other Expenditures	<u>\$1,270,000</u>	<u>\$232,000</u>	<u>\$295,000</u>	<u>\$403,000</u>	<u>\$478,000</u>	<u>\$551,000</u>
DNR FTE Positions	3.0	3.8	4.6	5.3	6.1	6.8

Sources

Department of Natural Resources
Department of Revenue
Iowa Finance Authority
LSA calculations

/s/ Holly M. Lyons

March 15, 2017

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
